



BAC 7710-FW-P

POSTAL REGULATORY COMMISSION

[Docket No. RM2014-5; Order No. 2117]

39 CFR Part 3050

Postal Price Elasticities

AGENCY: Postal Regulatory Commission.

ACTION: Petition for rulemaking.

SUMMARY: The Commission is establishing a rulemaking docket in response to a petition concerning price elasticities and internet diversion. The Commission has scheduled a technical conference for a public discussion based on the filing. This notice informs the public of the filing, the scope of the technical conference, and the availability of certain related documents. It also invites public comment and takes other administrative steps.

DATES: *Technical conference:* August 13, 2014 (9:30 a.m.). *Comments are due:* September 19, 2014.

ADDRESSES: Submit comments electronically via the Commission's Filing Online system at <http://www.prc.gov>. Those who cannot submit comments

electronically should contact the person identified in the **FOR FURTHER INFORMATION CONTACT** section by telephone for advice on filing alternatives.

FOR FURTHER INFORMATION CONTACT: David A. Trissell, General Counsel, at 202-789-6820.

SUPPLEMENTARY INFORMATION:

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I. Introduction

On May 2, 2014, the National Postal Policy Council, the Association for Mail Electronic Enhancement, the Association of Marketing Service Providers, GrayHair Software, Inc., the Greeting Card Association, the International Digital Enterprise Alliance, Inc., the Major Mailers Association, and the National Association of Presort Mailers (Petitioners) filed a petition pursuant to 39 CFR 3050.11.¹ The Petition requests that the Commission initiate a proceeding to review and consider improvements to the econometric elasticities demand model used by the Postal Service and the Commission. Petition at 2. Petitioners contend that the econometric volume demand model prepared by the Postal

¹ Petition to Improve Econometric Demand Equations for Market-Dominant Products and Related Estimates of Price Elasticities and Internet Diversion, May 2, 2014 (Petition).

Service materially understates the true price elasticities of demand for major postal products. *Id.*

First, Petitioners propose that firm-level models of the demand for transactional and marketing mail and similar models for the consumer mail market be developed, with the results aggregated to produce industry-level price elasticities. *Id.* at 14-16. Second, Petitioners advise re-estimating the econometric demand model by including a factor for electronic diversion. *Id.* at 16-17. Finally, Petitioners recommend comparing the elasticities derived from the firm-level models and the modeling of consumer behavior to the elasticities derived from the econometric demand estimates, as a method of corroborating each approach. *Id.* at 17.

II. Postal Service Answer

On May 9, 2014, the Postal Service filed its answer opposing the Petition.² The Postal Service contends that a proceeding would serve no useful purpose and that the interests of the Commission and the Postal Service would be better served by focusing their scarce resources elsewhere. Postal Service Answer at 1. The Postal Service also opposes the Petition on the following grounds: (1) the facts used to support the Petition were already considered and rejected by the Commission in Docket No. R2013-11; (2) demand elasticities and other forecasting parameters are outside of the Commission's purview; (3) a process

² Answer of the United States Postal Service in Opposition to Petition to Initiate a Proceeding Regarding Postal Demand Analysis, May, 9, 2014 (Postal Service Answer).

that contemplates “advance review” of changes in the demand analysis and forecasting models would be unfeasible; and (4) a proceeding would inject consideration of issues currently before the Court of Appeals with respect to the Commission’s decision in Docket No. R2013-11. *Id.* at 2-5. Finally, the Postal Service suggests that Petitioners pursue their own research or market surveys outside of any involvement by the Commission or the Postal Service. *Id.* at 5-6.

III. Reply in Support of Petition

On May 19, 2014, the Petitioners filed a reply to the Postal Service’s Answer.³ Petitioners state that the analytical principles used in postal demand modeling and volume forecasting methods are subject to the jurisdiction of the Commission. Reply at 3. Petitioners also assert that: (1) any worries that the Commission may prescribe a demand model by regulation are premature; (2) the proceeding is not a collateral attack on the Commission’s decision in Docket No. R2013-11; and (3) it would be unrealistic and unaffordable for Petitioners to develop their own analyses for the Commission’s consideration. *Id.* at 3-4.

IV. Commission Analysis

The Commission adopted the periodic reporting rules in 39 CFR part 3050 on April 16, 2009.⁴ In Order No. 203, the Commission clearly stated its intent to define the term “analytical principle” in a way that encompassed the analytical

³ Reply in Support of Petition, May 19, 2014 (Reply). Petitioners also filed a motion for leave to file their reply. Motion for Leave to File, May 19, 2014. The motion is granted.

⁴ Docket No. RM2008-4, Notice of Final Rule Prescribing Form and Content of Periodic Reports, April 16, 2009 (Order No. 203).

principles used in econometric models of demand. *Id.* at 39-40. The Commission agreed with the Postal Service that advance Commission review of the methods of calculating demand elasticities would not be required. *Id.* at 43. However, the Commission underscored its legitimate needs for estimates of demand elasticity, and its ability to evaluate the methods used to calculate them. *Id.*

The Postal Service affirmed this understanding in its comments on the proposed periodic reporting rules:

The Commission, of course, would have the opportunity to react to the Postal Service's demand analysis materials in the ACD, or later in the year at a time of its own choosing. Over the years, the Postal Service has consistently endeavored to respond to the Commission's identification of areas of possible improvement in demand analysis and forecasting, and there is no reason to believe that the Postal Service would forgo the benefits of that practice. While this may not be 'advance' input like that provided in the proposed costing rulemakings, it could perform an essentially similar function.

Docket No. RM2008-4, Initial Comments of the United States Postal Service in Response to Order No. 104, October 16, 2008, at 29.

The Commission considers the Petition a request to identify areas of possible improvement in demand analysis and forecasting.⁵ To the extent that

⁵ The Postal Service periodically files with the Commission an explanation of its econometric demand equations for market dominant products, which describes the Postal Service's current methodology to estimate elasticities and demand. The most recent report is available at <http://www.prc.gov/Docs/89/89962/MD.Prod.Demand.Narrative.pdf>.

the Petition would require amendment to the Commission's rules, it considers the Petition a request pursuant to 5 U.S.C. 553(e) to amend the Commission's rules in 39 CFR part 3050.

At this juncture, the Commission believes it appropriate to explore areas of possible improvement in demand analysis and forecasting. As a preliminary step, the Commission intends to explore possible improvements to the current method of deriving demand elasticities by product.

Petitioners request that "the Commission . . . conduct an effort to correct the flaws that it has identified in the current demand equations." Petition at 16. The Commission believes that it may be useful to explore deriving separate elasticities for individual products. Similarly, separate elasticity of demand may also facilitate review of market dominant negotiated service agreements. If data are available for actual volume response to price changes, such elasticities could be derived by mailer or industry.

V. Initial Technical Conference and Comments

To better evaluate a petition to change an accepted analytical principle, the Commission may order that it be made the subject of discovery. 39 CFR 3050.11(c). Accordingly, as an initial step in this docket, the Commission finds it would be worthwhile to consider the elasticity of demand issue by exploring alternative methods that have already been developed and can be presented for discussion. Therefore, the Commission is scheduling a technical conference on August 13, 2014, at 9:30 a.m., in the Commission's hearing room. At the

conference, Lyudmila Y. Bzhilyanskaya, Margaret M. Cigno, and Edward S. Pearsall will discuss their paper titled “A Branching AIDS Model for Estimating U.S. Postal Price Elasticities.” A copy of this paper is attached to this Order as Library Reference 1. The Commission stresses that the views expressed in Library Reference 1 are those of its authors and have not been reviewed or endorsed by the Commission or any Commissioner.

Pursuant to 39 U.S.C. 505, Kenneth E. Richardson is designated as officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding. Interested persons may submit comments on Library Reference 1 and matters discussed during the technical conference no later than September 19, 2014.

VI. Ordering Paragraphs

It is ordered:

1. The Commission establishes Docket No. RM2014-5 for consideration of the matters raised by the Petition filed May 2, 2014.
2. A technical conference is scheduled on August 13, 2014, at 9:30 a.m., in the Commission’s hearing room.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Kenneth E. Richardson to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.

4. Comments by interested persons, with respect to Library Reference 1 and matters discussed during the technical conference are due no later than September 19, 2014.

5. The Secretary shall arrange for publication of this order in the **Federal Register**.

By the Commission.

Shoshana M. Grove,
Secretary.

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